RECORD AND BRIEF

No. 15-1189

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

SUPPLEMENTAL BRIEF OF RESPONDENT

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

Counsel for Respondent

November 1, 2016 * Counsel of Record

[Additional Counsel on Inside Cover]

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

D. Brent Lambert
Lexmark Int'l, Inc.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

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SUPPLEMENTAL BRIEF

The government identifies no conflict, confusion, or error in the court of appeals' exhaustive analysis of the statute and caselaw. That decision affirmed settled law enforcing limits on sales of less than all of a patentee's rights. Far from "disregard[ing] this Court's holdings," U.S. Br. 9, Judge Taranto's opinion for the 10-judge majority addressed each holding raised by the parties to determine what this Court has "actually decided" concerning patent exhaustion. Pet. App. 39a-40a.

That careful reasoning receives scant attention in the government's brief. Like Impression's petition, it offers no reason why this Court should intervene. Indeed, the government's brief does not dispute Lexmark's key propositions:

- the text of the Patent Act controls exhaustion;
- no legally rational difference restricts patent remedies following patentee sales but not licensee sales;
- the positions advanced by Impression have been raised and rejected numerous times before this Court;
- no precedent supports Impression's argument for automatic worldwide exhaustion; and
- this Court's interpretation of the Copyright Act in *Kirtsaeng* does not extend to the Patent Act.

The call for certiorari, therefore, rests on misinterpreted dicta and misdirected policy preferences. Disagreement with a lopsided majority of the en banc

Federal Circuit on a question of patent law, however, is not enough to invoke this Court's review. See, *e.g.*, *Shodadpuri* v. *United States*, 135 S. Ct. 2350 (2015) (declining to review en banc Federal Circuit decision). Fully mindful of its dual responsibilities to follow this Court's precedents and articulate nationwide patent-law rules, U.S. Br. 23, the court of appeals did both. The petition should be denied.

I. THE DOMESTIC-SALES QUESTION DOES NOT MERIT REVIEW.

A. The Government Identifies No Basis For Review.

The government's brief disregards several reasons why certiorari is unwarranted. First, the decision's careful analysis implicates no conflict with precedent. Opp. 8-13. Like Impression, the government declines to actually address the court of appeals' analysis, instead simply declaring a "conflic[t]." See, *e.g.*, U.S. Br. 6-8. But a string-citation of nine cases, without analysis or even parentheticals, cannot overcome the attention Judge Taranto's opinion gave each of these decisions. Remarkably, the government simply repeats the *identical* arguments it submitted below. See U.S. En Banc Br. 5-10 (ECF No. 235). The government, however, cannot simply pretend that ten Article III judges did not painstakingly refute those arguments; to invoke this Court's jurisdiction, it must explain *why* those judges erred. Pet. App. 26a-56a.

Second, the government has repeatedly raised, and this Court has consistently rejected, this invitation to rewrite settled exhaustion principles. Opp. 16-18. The government never acknowledges its failures, dating to the 1930s, to persuade any court or Congress to adopt its view of automatic exhaustion. That silence is telling. And the resulting stability in the law is

critical to the marketplace. Given the reliance interests at stake, to change course now requires a special justification not offered here. See *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015).

Third, Impression's misplaced policy concerns are not implicated by the stipulated facts of this case. Opp. 18-20. The government's two half-hearted paragraphs on the subject, U.S. Br. 14-15, merely parrot Impression's dire assertions about second-hand markets, offering no explanation of how such markets developed despite the settled law in this area, Opp. 18-20. The assertion that "[t]his case accordingly provides a suitable vehicle," U.S. Br. 14-15, is wrong and beside the point where the case does not present the imagined policy concerns in the first place. The court of appeals carefully considered these same supposed concerns and found them absent from the record. Pet. App. 59a-63a. If these speculative consequences were suddenly to materialize, they can be addressed when actually raised in another case.

The government brief's perfunctory treatment is particularly curious given its longstanding and well-known disagreement with settled exhaustion doctrine. That position was reiterated in the government's en banc brief and in Impression's petition. See Pet. 18-21. Lexmark explained how these arguments counseled *against* certiorari in light of the court of appeals' comprehensive rejection of the government's views. Opp. 8-18. By failing to grapple with the central questions framed in Judge Taranto's in-depth opinion or Lexmark's opposition, the government's brief serves only to highlight the flaws in Impression's petition.

B. The Court Of Appeals' Decision Is Correct.

Certiorari is also unwarranted because neither Impression nor the government has identified any error in the reasoning below. The government offers four reasons why the court of appeals' "justifications for its ... holding are not persuasive," U.S. Br. 8-14, but all are baseless.

First, the government faults the court of appeals for "disregard[ing] this Court's holdings based on its own assessment of Section 271(a)'s most natural meaning." U.S. Br. 9. The government accepts the statutory starting point for the court of appeals' analysis—that infringement turns on whether an alleged infringer proceeds "without authority." *Id.* The government further admits that "no discrete [statutory] provision ... squarely forecloses the Federal Circuit's approach." *Id.* The court of appeals, however, understood that an "exhaustion rule should fit rather than contradict the statutory text," and considered at length whether precedent required the government's counter-textual rule. See Pet. App. 41a-56a; Opp. 8-16. That the government advocates an interpretation that contradicts the court of appeals' "assessment of Section 271(a)'s most natural meaning"—without offering *any* competing understanding of the text—undercuts rather than supports the case for certiorari.

Second, the government criticizes the court of appeals' recognition that patentees cannot *expand* their rights by attaching conditions or restrictions that are "otherwise unlawful." U.S. Br. 9-10. This was mistaken, the government says, because "[t]he logic and reasoning of [the relevant] decisions ... turned on the extent of the patent grant, not on the particular type of post-sale restriction at issue." *Id.* But that is precisely

what the court of appeals stated: this "Court did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights. Instead, it called for an inquiry—in accord with what *Mallinckrodt* later said—into whether a patentee's restrictions were otherwise improper, as by 'extend[ing] the scope of its patent monopoly.'" Pet. App. 53a-54a (citing the same case the government cites). The government's critique is unfounded.

Third, the government claims that the court of appeals "misconstrued this Court's occasional references to 'unconditional sales.'" U.S. Br. 10. The court of appeals explained why the government's view is inconsistent with how this Court has used the terminology. The majority also made clear that, "[i]n any event," that terminology "is just one part of the analysis." Pet. App. 43a n.9. Yet, again, the government simply ignores the court of appeals' direct response to the same argument below.

Finally, the government spills considerable ink trying to explain that the court of appeals "misinterpreted this Court's decisions" by reading them to permit limitations on post-sale use when sales are made by licensees rather than by patentees. U.S. Br. 11-14. Claiming that the court of appeals "misread[d]" *General Talking Pictures*, the government insists that the court was wrong to characterize the government's position as giving less control to a practicing-entity patentee than to a non-practicing-entity patentee. *Id.* According to the government, there is actually no difference between the two. *Id.* at 13-14.

This contention is directly contrary to the government's prior positions. Before the court of appeals, the government embraced the patentee-licensee distinction it now rejects. The majority expressly relied on this position, stating that "Impression and the

government contend that ... Lexmark automatically lost its patent rights—simply because Lexmark sold the Return Program cartridges itself, subject to the same communicated restriction, rather than having left the manufacture and sale to others under license." Pet. App. 26a. Likewise, in its brief supporting certiorari in *Quanta Computer* v. *LG Electronics*, the government conceded that

> Although there is a seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser, the distinction is a necessary and explicable result of the Court's decision in *General Talking Pictures*.

Br. for the U.S. as Amicus Curiae, at 14, *Quanta*, No. 06-937 (Aug. 2007). Despite the government's shifting positions, however, the exhaustion doctrine as reaffirmed below has consistently treated selling and licensing patentees the same way.

The government's latest position is also illogical. The government accepts the premise that a patentee *can* decide not to convey all of its rights and authority to licensees, including by requiring the imposition of a single-use/no-resale restriction. U.S. Br. 13. But, the government continues, a sale by the licensee that properly conveys only the limited rights granted in the license will fully exhaust *all* patent rights, including those that were not conveyed; this would preclude any subsequent infringement claim, even if the licensee's customer knowingly exceeded its limited authority. *Id.* In the government's view, the only situation in which the exhaustion doctrine would *not* preclude an infringement claim is if the licensee ignored the patentee's limited-authority conveyance and sold the product without those restrictions. *Id.* But *General*

Talking Pictures does not support the government's belated and backwards effort to bend the decision to its preferred automatic exhaustion rule. See, *e.g.*, *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 128-33 (1938) (Black, J., dissenting) (explaining that the decision "permits the *patentee*—by virtue of his contract with the manufacturer—to restrict the uses to which this purchaser and owner may put" the product) (emphasis added).[1]

The court of appeals correctly understood that the government's position would "disadvantage [selling patentees] vis-à-vis patentees who sell through licensees." U.S. Br. 13-14. That the government now articulates a contrary rule—one likewise with "no sound reason, and no Supreme Court precedent, requiring" it—is no basis for certiorari. Pet. App. 26a.

II. THE FOREIGN-SALES QUESTION DOES NOT MERIT REVIEW.

As to foreign sales, the government makes two things clear. First, Impression's argument for *automatic* worldwide exhaustion is both novel and wrong. Second, the government's preference for *presumptive* worldwide exhaustion is a policy view not supported by precedent or implicated by these facts.

A. The Government Rejects Impression's Arguments For Certiorari.

Impression's petition contends certiorari is warranted because the decision below is inconsistent

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[1] Moreover, under the government's rule, a purchaser who buys from such a licensee without knowledge of any limitation on the seller's authority would be an infringer, while a purchaser who knows of and ignores such limitations would not. U.S. Br. 13. The government offers no rationale for this result, nor is there any.

with precedent—specifically, this Court's decisions in *Kirtsaeng* and *Quanta*, and "over a century of common-law rulings" in lower courts. Pet. 24. The government's brief squarely contradicts Impression.

1. *Kirtsaeng*'s copyright ruling was the centerpiece of Impression's case below and in this Court. The government, however, agrees with Lexmark and the court of appeals that *Kirtsaeng*'s interpretation of the Copyright Act does not "compe[l] an analogous rule of automatic international exhaustion in the patent context." U.S. Br. 21 (citing *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)). Echoing Lexmark, Opp. 25, the government explains that "the *Kirtsaeng* Court's analysis of the text, context, and history of [§ 109] does not illuminate the proper international-patent-exhaustion rule." U.S. Br. 21-22. Impression's contention that *Kirtsaeng* "identified a *general* exhaustion principle" and "then went on to consider whether the text and structure of the Copyright Act somehow limited that general principle," Reply Br. 12, is backwards: the Court examined the statute's "text, context, and history" and then "found *additional* support ... in the common la[w]." U.S. Br. 21-22 (emphasis added).

The government offers a further reason why *Kirtsaeng* does not control. "In the patent context ... *Boesch* demonstrates that sales lawfully made in a foreign country do not automatically trigger exhaustion." U.S. Br. 22. As the Solicitor General explained to this Court in *Quanta*, *Boesch* v. *Graff*, 133 U.S. 697 (1890), "made clear" "that a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." Br. for the U.S. as Amicus Curiae, at 9 n.2, *Quanta*, No. 06-937 (Nov. 2007). Given this Court's

precedent, see Pet. App. 81a-84a, ancient common law is inapplicable, *contra* Pet. 24-25, 28 n.4.

2. As for Impression's mistaken reliance on *Quanta* (Pet. 30-31), the government's silence is again telling: its brief never even cites *Quanta* on the foreign-sales question. The reason is simple: "*Quanta* never mentioned *Boesch*"—much less tacitly overruled it. Opp. 24-25. The government's approach confirms that Impression's continued and puzzling invocation of *Quanta*, Reply Br. 12, without even engaging Lexmark's rebuttal, Opp. 24-25, cannot justify certiorari.

3. Finally, the government agrees with Lexmark that "the Federal Circuit correctly recognized that foreign sales do not *automatically* exhaust U.S. patent rights." U.S. Br. 20. The petition purported to identify a "consistent line of patent cases indicating" that an authorized foreign sale "has long been understood to exhaust U.S. patent rights." Pet. 27. Lexmark's Opposition (at 22-24) and the decision below (Pet. App. 90a-97a), however, thoroughly refuted that position: numerous decisions "followed *Boesch* in rejecting automatic worldwide exhaustion." Opp. 22. Only one—*Holiday*, an 1885 district court decision that pre-dated *Boesch*—supported Impression's rule. *Id.* at 24; Pet. App. 97a.

The government's brief (at 18) highlights several decisions that Impression's reply (at 12-13) *concedes* transferred foreign but not U.S. patent rights. And Impression never addressed other decisions like *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), that directly considered and rejected its position. Pet. App. 93a-94a. Impression's claim of a "consistent line" of foreign-exhaustion holdings, therefore, has been thoroughly discredited. The government's position confirms that Impression's second

question falls far short of this Court's certiorari standard.

B. The Government Offers No Independent Basis For Review.

The government nevertheless recommends review. But it attacks a straw man; the court below did *not* "hol[d] that foreign sales *never* trigger exhaustion of U.S. patent rights." U.S. Br. 15 (emphasis added). See also *id.* at 6, 20. Neither those words nor that principle appears anywhere in the opinion, which recognized the opposite: a patentee's foreign sale *could* "gran[t] permission for otherwise-infringing U.S. activities." Pet. App. 94a (discussing *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920)). The extreme position the government ascribes to the court of appeals was not necessary to Lexmark's position or to the decision in *Jazz Photo*—and is not the rule under review.[2]

Aside from this mischaracterization, however, the government's analysis underscores why certiorari is unwarranted—given its *agreement* with Lexmark and the court of appeals that:

- the statute requires patentee "authority" to exhaust, U.S. Br. 13, 16; Opp. 22, 27-28;
- patent rights are territorial rather than global under the Paris Convention, U.S. Br. 15-16; Opp. 26, 29;
- a foreign sale does not implicate U.S. patent rights, which offer no extraterritorial protection, U.S. Br. 16-17; Opp. 28-29;

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[2] *See, e.g.*, Lexmark En Banc Br. 22 (ECF No. 239) ("That a foreign sale does not *automatically* exhaust U.S. patent rights does not mean that it may *never* do so.").

- *Boesch* held that foreign sales do not necessarily exhaust U.S. patent rights, U.S. Br. 17; Opp. 21-22;
- lower courts have enforced U.S. patent rights notwithstanding prior foreign sales, U.S. Br. 18; Opp. 22-24;
- trade agreements are "predicated on the assumption" that sales abroad do *not* automatically exhaust U.S. patent rights, U.S. Br. 18-20; Pet. App. 87a-89a;
- *Kirtsaeng* does not control, U.S. Br. 21-22; Opp. 25-27;
- "nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction," U.S. Br. 20; see Opp. 20.

The government's remaining *dis*agreement with the court below is gossamer-thin, abstract, and unworthy of this Court's review.

The government tries to cabin *Boesch* to foreign sales *unauthorized* by U.S. patentees. U.S. Br. 17-18. But that purported restriction is absent from *Boesch*'s reasoning. And it contradicts the government's position in *Quanta*: "a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." *Supra* at 8.

The policy of *presumptive* extraterritorial exhaustion the government now advances, moreover, represents (at best) a *post hoc* reinterpretation of precedent. The lower court decisions applying *Boesch* do not actually articulate the government's preferred presumption. U.S. Br. 18. If anything, the government's own explanation of patent law's territoriality,

id. at 15-20, supports the opposite rule: because a sale abroad "does not implicate or require any authority under the U.S. patent," *id.* at 16, there is no reason to presume the parties intended any effect on U.S. patent rights.[3]

Given the limits of the ruling below, the government's objection shrinks further still. Impression advanced no implied-license defense, Pet. App. 63a, which could mitigate practical concerns, cf. *Kirtsaeng*, 133 S.Ct. at 1389 (Ginsburg, J., dissenting) (implied license may mitigate effects of territorially-limited rights). And Lexmark would prevail even under the government's rule. Contrary to the government's suggestion that Lexmark did not reserve U.S. patent rights, U.S. Br. 23, the "only relevant evidence indicates Lexmark" *did* reserve those rights, Lexmark En Banc Br. 26 (ECF No. 239). That question, like the implied-license defense, was not litigated below. Rather than offering a clean vehicle, therefore, this case does not even implicate the critical questions—authorization or reservation of rights—under the government's proposed rule. A case that presented these key questions would be a far more suitable vehicle for the Court's review.

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[3] Similarly arbitrary is the government's view that a sale abroad must transfer all U.S. rights or none at all. U.S. Br. 17 n.3. No precedent or logic prevents a patentee from authorizing a buyer to use, but not import for resale, a foreign-sold product in the United States.

CONCLUSION

For these reasons, and those in the Opposition, the Court should deny the petition.

Respectfully submitted,

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn St.
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

D. BRENT LAMBERT
LEXMARK INT'L, INC.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

Counsel for Respondent

November 1, 2016

* Counsel of Record